Annual

Report

1950

INTERSTATE DEPARTMENT STORES, INC.

INTERSTATE DEPARTMENT STORES, INC.

DIRECTORS

Robert S. Adler	R. C. Kramer
Russell P. Bygel	Harold F. Linder
Sol W. Cantor	Benjamin W. Mayer
Charles E. Federman	Albert Parker
Paolino Gerli	Herbert J. Reeves
Harry C. Kilpatrick	Harold J. Szold

OFFICERS

Chairman of the Board	R. C. Kramer
President	Russell P. Bygel
Executive Vice President	Sol W. Cantor
Treasurer	Paul I. Bertram
Secretary	Albert Parker
Assistant Secretary	Edward C. Schenkel

Transfer Agent	Bank of the Manhattan Company	New York
Registrar	The Commercial National Bank and Trust Company	New York
General Counsel	Parker, Chapin and Flattau	New York
Public Accountants	S. D. Leidesdorf & Co.	New York
Executive and General Offices	111 Eighth Avenue	New York

April 23, 1951.

To the Stockholders of

INTERSTATE DEPARTMENT STORES, INC.

This is the report of INTERSTATE DEPARTMENT STORES, INC. and its subsidiaries for the fiscal year ended January 31, 1951.

Because of the sharp increase in prices that occurred in 1950, it was decided to file Federal Income Tax returns by valuing inventories of certain stores and departments on a Last-In, First-Out (LIFO) basis. In previous years, the Company had used the Retail Inventory Method of valuing inventories at the lower of cost or market. The year's operations and a comparison with those of the prior year may be summarized as follows:

	Fiscal Year Ended January 31, 1951		Fiscal Year Ended January 31, 1950
	Last-In, First-Out	Retail Inventory Method	Retail Inventory Method
Sales	$65,508,300	$65,508,300	$61,752,000
Earnings before Federal Income Taxes	3,433,600	3,248,400	1,885,900
Net Earnings after Federal Income Taxes	2,063,600	1,808,900	1,160,900
Earnings per share of Common Stock	6.68	5.86	3.76
Dividends paid per share of Common Stock	2.125	2.125	2.00
Stockholders' Equity per share of Common Stock	39.69	38.87	35.13

EARNINGS: Earnings for the fiscal year just ended, after provision for Income and Excess Profits Taxes, increased $902,700 over the preceding year, to $2,063,600 or $6.68 per share of Common Stock. This compares with earnings of $1,160,900 or $3.76 per share of Common Stock in the preceding fiscal year. The increase in earnings arises primarily from increased sales and lower mark-downs.

The change to the LIFO basis affected earnings reported on the previous year's Federal tax return and necessitated taking into income for the fiscal year ended January 31, 1951, an inventory reserve of $186,900 that was created out of prior years' earnings. This adjustment, necessitated by the change, is non-recurring. Before giving effect to this adjustment, earnings applicable to the Common Stock on a Retail Inventory Method basis for the fiscal year just ended would have been $1,808,900 or $5.86 per share.

The earnings for the year are the largest in the Company's history.

SALES: Sales increased $3,756,300 or 6.1%. Consolidated sales for the past five years have been as follows:

Fiscal Year Ended January 31	Owned Departments	Leased Departments	Total
1951	$57,107,300	$8,401,000	$65,508,300
1950	52,015,800	9,736,200	61,752,000
1949	57,179,300	9,707,600	66,886,900
1948	52,893,500	9,920,400	62,813,900
1947	46,502,700	5,817,300	52,320,000

Sales of owned departments increased 9.8% and sales of leased departments decreased 13.7%. In part, this difference in trend results from the fact that the Company operated certain departments in this past year that were previously leased to others.

STORES OPENED AND CLOSED: No new stores were opened in 1950. A small store in Stoughton, Wisconsin was closed in December 1950. The "Economy" store in Evansville, Indiana was totally destroyed by fire in January 1951. Plans are under way for the building of a new store to replace it at the same site but it is not possible at this time to predict when it can be made ready for occupancy.

Plans have been made to open a new store in Vincennes, Indiana about November 1, 1951.

WORKING CAPITAL: Working capital increased $1,800,000 to $13,700,000 at year end. $700,000 of this increase is a result of the additional long term indebtedness created during the year. The balance represents earnings retained for use in the business and needed to finance its further expansion.

Accounts receivable, which represent largely time payment accounts, show a further increase. The proportion of the Company's business transacted on a time payment basis was about the same as in the previous year. However, the proportion has been declining since September 1950 and for the last quarter of the fiscal year it was below the rate for the corresponding quarter of the previous year. The average maturities of these installment accounts are about 20% shorter than those prevailing in the prior year.

The increase in inventories is caused by the increase in owned department sales and the unsettled conditions in the markets from which we buy, which necessitated making larger and more extended commitments than normally.

FINANCING: On November 1, 1950 the Company entered into an agreement with one of its Banks whereby the Bank agrees to make loans to the Company between that date and November 2, 1953, in an amount not exceeding $3,500,000. The Company has the option on November 2, 1953

to convert all or any part of the $3,500,000 so that it would be payable in equal annual installments over an additional period of seven years. The interest rate on this term loan will vary under certain circumstances but will not be less than 2½% nor more than 3¼%.

Upon the consummation of this agreement, the Company prepaid the long term Bank loans which it then had outstanding in the amount of $1,100,000 which were payable $200,000 in 1953, $200,000 in 1954 and $700,000 in 1955.

As at year end, the Company had borrowed $2,000,000 under the agreement and since then has borrowed the balance.

BUILDINGS, EQUIPMENT AND FIXTURES: The Company spent $700,000 for the improvement of its properties and $125,000 for the acquisition of real estate during the year. Depreciation and amortization charged to expense increased from $500,000 to $575,000 and there was a net increase of $245,000 in fixed assets. In addition, expenditures for maintenance and repairs charged to expense during the year amounted to $360,000.

DIVIDENDS: Dividends of 50¢ per share were paid on the Common Stock in each of the first three quarters of the year. At the November meeting of the Directors the quarterly dividend paid on January 15, 1951 was increased to 62½¢ per share, making the total dividends paid for the year $2.12½. The regular quarterly dividend of 62½¢ per share for the first quarter of the current fiscal year was paid on April 14th.

ASSET VALUE: The net asset value of the Common Stock of the Company as shown by its balance sheet was $39.69 per share at year end. The net asset value, earnings and dividends per share of Common Stock for the past five years have been as follows:

As at January 31	Asset Value Per Share	Earnings Per Share	Dividend Per Share
1951	$39.69	$6.68	$2.125
1950	35.13	3.76	2.00
1949	33.38	5.15	2.00
1948	30.23	4.62	2.00
1947	27.61	4.56	1.70

STOCK OPTION PLAN: On January 24, 1951, the Board of Directors adopted a Stock Option Plan by which officers and key employees may be granted options to purchase an aggregate maximum of 25,000 shares of the Company's Common Stock. The purpose of the Plan is to provide an increased incentive to the officers and employees who are largely responsible for the successful conduct of the Company's business. A Committee of the directors, none of whom participate in the Plan, will administer it and determine the individuals to whom options are granted. The option price will be 95% of the market value of the stock at the time each option is granted.

To date, the Committee has granted options to the Chairman of the Board, the President and the Executive Vice President, each for 4,000 shares, none of which may be exercised before February 1, 1952, and then only with respect to not more than 25% in each year. The Stock Option Plan is described in detail in the Proxy Statement which accompanies this Report.

Although the Board of Directors had the power to adopt the Stock Option Plan without referring it to stockholders, the ratification of the Plan is being submitted to stockholders, as set forth in the Proxy Statement. In the event that the Plan is not ratified, the Board of Directors will, as authorized in the Plan, cancel the Plan and the options which have been granted.

ANNUAL MEETING: The Directors amended the By-laws so as to change the date of the Annual Meeting of Stockholders from the second Wednesday in May to the fourth Wednesday in May beginning with the year 1951. This change was made in order to allow the additional time needed to complete the annual audit because of the change to the LIFO basis. The meeting this year will be held on May 23, 1951.

OUTLOOK: The prospects for 1951 are difficult to forecast. The high level of employment and increased wage payments will place large sums of money in the hands of the public but the effect of increased taxes on its ability and willingness to spend cannot be determined.

Prices have risen sharply and the average sale will be higher than last year. Shortages of merchandise have not yet affected the sales of your Company but it is possible that the supply of certain categories of merchandise will be restricted. Your Company's sales of "soft goods", which are least likely to be affected by shortages in the near future, constitute 85% of the business and it should therefore not be seriously affected by this problem.

The nature of the markets from which we buy has necessitated owning larger inventories and making larger commitments than we have in recent years. This will, of course, require the use of greater working capital and increase the business risks.

The effects of controls and restrictions on the Company's operations cannot be determined at this time. The initial governmental orders do not appear to be too burdensome but the effects of subsequent amendments and clarification are, of course, unknown.

While 1951 will bring these and probably many more problems, your Management is gratified at the progress made by the organization in the past year and is confident that it will meet such problems and opportunities, with success.

For the Board of Directors,

R. C. Kramer, *Chairman*

Russell P. Bygel, *President*

CONSOLIDATED BALANCE SHEET

ASSETS

	1951		1950	
Current Assets:				
Cash on hand and in banks		$ 623,793		$ 1,382,168
Accounts receivable:				
Customers	$6,230,860		$5,320,033	
Less: Reserves	651,185	5,579,675	617,920	4,702,113
Other		541,004		389,849
Merchandise inventories (Note A)		13,151,020		9,193,624
Total Current Assets		19,895,492		15,667,754
Other Assets		68,973		53,925
Fixed Assets—at cost:				
Land and buildings (subject to mortgages—per contra)	506,918		381,378	
Less: Reserves for depreciation	34,818		20,793	
	472,100		360,585	
Furniture and equipment	3,145,932		2,841,534	
Less: Reserves for depreciation	1,183,399		1,030,617	
	1,962,533		1,810,917	
Leaseholds and leasehold improvements	1,637,916		1,443,360	
Less: Reserves for amortization	788,732		576,585	
	849,184	3,283,817	866,775	3,038,277
Deferred Charges		353,178		303,521
		$23,601,460		$19,063,477

The Notes to Financial Statements are an integral part of

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T AS AT JANUARY 31, 1951-1950

LIABILITIES

	1951		1950	
Current Liabilities:				
Accounts payable—trade		$ 3,000,368		$ 2,332,640
Accrued expenses and sundry other liabilities		1,292,311		1,040,660
Taxes withheld and accrued taxes other than Federal taxes on income		403,520		334,318
Accrued Federal taxes on income	$1,450,888		$ 778,509	
Less: United States Treasury savings notes—at cost, plus accrued interest	—	1,450,888	751,200	27,309
Total Current Liabilities		6,147,087		3,734,927
Long Term Debt:				
Notes payable (Note B)	4,775,000		4,150,000	
Mortgages payable	302,682	5,077,682	198,169	4,348,169
Total Liabilities		11,224,769		8,083,096
Deferred Income—Carrying Charges		114,574		126,130
Stockholders' Equity (Notes B and C)		12,262,117		10,854,251
Lease Commitments (Note D)				
		$23,601,460		$19,063,477

this statement and should be read in conjunction herewith.

INTERSTATE DEPARTMENT STORES, INC.
and Subsidiary Companies

CONSOLIDATED STATEMENT OF EARNINGS
For the Year Ended January 31, 1951-1950

	1951	1950
NET SALES:		
Owned departments	$57,107,309	$52,015,800
Leased departments	8,400,994	9,736,279
	65,508,303	61,752,079
COST OF SALES, operating and administrative expenses, including depreciation and amortization of $577,472 for 1951 and $495,935 for 1950 (Note A)	62,035,470	59,845,852
	3,472,833	1,906,227
OTHER INCOME—Net	129,711	144,833
	3,602,544	2,051,060
INTEREST PAID	168,905	165,138
NET EARNINGS BEFORE FEDERAL TAXES ON INCOME (Note A)	3,433,639	1,885,922
PROVISION FOR FEDERAL TAXES ON INCOME	1,370,000	725,000
NET EARNINGS (Note A)	$ 2,063,639	$ 1,160,922

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the Year Ended January 31, 1951-1950

	1951	1950
EARNINGS PREVIOUSLY RETAINED IN THE BUSINESS (EARNED SURPLUS)	$ 7,358,050	$ 6,815,020
NET EARNINGS	2,063,639	1,160,922
	9,421,689	7,975,942
CASH DIVIDENDS PAID	655,773	617,892
EARNINGS RETAINED FOR USE IN THE BUSINESS	8,765,916	7,358,050
CAPITAL SURPLUS (no change during the year)	1,915,949	1,915,949
COMMON STOCK—without par value (Note C):		
Authorized 500,000 shares		
Issued and outstanding 308,946 shares	1,580,252	1,580,252
STOCKHOLDERS' EQUITY (Notes B and C)	$12,262,117	$10,854,251

The Notes to Financial Statements are an integral part of these statements and should be read in conjunction herewith.

INTERSTATE DEPARTMENT STORES, INC.
and Subsidiary Companies

NOTES TO FINANCIAL STATEMENTS
As at January 31, 1951

Reference is made to the Annual Report for the year ended January 31, 1950 for notes and comments pertaining to financial statements as at that date.

NOTE A—Merchandise inventories as at January 31, 1951, which include merchandise in transit in the amount of $1,571,231, are stated on the following bases:

At Stores —As calculated by the retail method of inventory valuation:

At the lower of cost or market after provision for markdowns based on age of merchandise, or

At cost as determined on the "last-in, first-out" basis.

At Warehouses —At the lower of cost or replacement market.

In Transit —At specific invoice cost.

In prior years, store operating subsidiaries of the Company priced their merchandise inventories at the lower of cost or market as calculated by the retail method of inventory valuation after provision for markdowns based on age of merchandise. At January 31, 1951, certain of these subsidiaries changed their method of pricing merchandise inventories of certain departments to cost as calculated by the retail method of valuation on the "last-in, first-out" basis. The consolidated net income for the current year, as set forth in the accompanying consolidated statement of earnings, would have been approximately $185,000 and $255,000 less, before and after Federal taxes on income, respectively, if such change had not been effected.

NOTE B—Notes payable as at January 31, 1951 are due to:

Bank	$2,000,000
Insurance Company	2,775,000
	$4,775,000

The bank loan, evidenced by 90 day notes, was made pursuant to the terms of a credit agreement under which the Company may borrow, repay and reborrow up to $3,500,000 for a three year period from November 1, 1950. Interest is to be at a rate per annum equal to the prime commercial discount rate of the Bank in effect on the date of such note. After the expiration of the three year period, at the option of the Company, it may borrow on November 2, 1953 up to $3,500,000, repayable in seven equal annual installments beginning November 1, 1954 at an annual interest rate of not less than 2½% nor more than 3¼%, determined as prescribed in the credit agreement.

NOTES TO FINANCIAL STATEMENTS — (Continued)

The note payable to an insurance company requires annual amortization payments as follows: $75,000 through 1955, $200,000 from 1956 through 1958, $325,000 in 1959, $350,000 from 1960 through 1962 and $500,000 in 1963. The payment due May 1, 1951 was paid in advance, with the result that no installment is due until 1952.

The loan agreement with the insurance company and the bank credit agreement contain restrictions on the right of the Company to declare dividends (other than stock dividends), including, with respect to the insurance company loan agreement, a requirement that, after giving effect to the payment of such dividends, there are prescribed ratios of consolidated net current assets and of consolidated net tangible assets to consolidated funded debt. As at January 31, 1951, approximately $2,900,000 of the Company's surplus of $10,681,865 was not subject to the dividend restrictions contained in the loan agreements.

Note C—The Certificate of Incorporation of the Company was amended on May 17, 1950, to increase the authorized Common Stock without par value from 320,000 shares to 500,000 shares, and to eliminate pre-emptive rights of stockholders.

A stock option plan for officers and key employees of the Company and its subsidiaries was adopted in January 1951, and is being submitted to the stockholders for ratification. The plan authorizes the granting of options to purchase not in excess of 25,000 shares of the Common Stock of the Company to such officers and employees (not to exceed 25 in number) and in such amounts as may be determined by a committee of directors of the Company, at a purchase price of 95% of the market price on the date the option is granted. Options are exercisable within five years from the date granted provided (i) none may be exercised prior to February 1, 1952 or subsequent to December 31, 1960 and (ii) options granted in the calendar year 1951 may not be exercised in any calendar year for more than 25% of the largest total number of shares at any time subject to an individual's option. In accordance with the plan, options (which are subject to cancellation if the plan fails of ratification by stockholders) have been granted to three officers of the Company for the purchase of an aggregate of 12,000 shares at $31.5875 per share.

Note D—At January 31, 1951, the minimum annual rentals upon property leased to the Company and/or to its subsidiaries under 66 leases expiring after January 31, 1954, amount to approximately $1,034,000, plus real estate taxes, insurance, etc.

General—The accompanying financial statements are subject to final determination of Federal, state and local taxes. Federal income tax returns have been examined through the fiscal year ended January 31, 1948, and all additional assessments or refunds have been provided for.

ACCOUNTANTS' REPORT

To the Board of Directors
INTERSTATE DEPARTMENT STORES, INC.
New York, N. Y.

We have examined the consolidated balance sheet of Interstate Department Stores, Inc. and subsidiary companies as at January 31, 1951 and the related consolidated statements of earnings and stockholders' equity for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings and stockholders' equity, together with the notes to financial statements, present fairly the consolidated financial position of Interstate Department Stores, Inc. and subsidiary companies at January 31, 1951, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change, which we approve, in the method of determining the amount of certain merchandise inventories, as set forth in Note A of the notes to financial statements.

S. D. LEIDESDORF & CO.

New York, N. Y.
April 17, 1951

LOCATION AND NAME OF STORES

CONNECTICUT

New Haven .... Stanley's

ILLINOIS

Aurora .... Aurora Dry Goods Co.
Belleville .... Carroll House
Decatur .... Decatur Dry Goods Co.
Peoria .... Peoria Dry Goods Co.
Rockford .... Rockford Dry Goods Co.
Springfield .... Springfield Dry Goods Co.
Waukegan .... Waukegan Dry Goods Co.

INDIANA

Anderson .... Hill's
Evansville .... Economy Dept. Store
Evansville .... Evansville Dry Goods Co.
Fort Wayne .... Grand Leader
Huntington .... Carroll House
Marion .... Hill's
Muncie .... Stillman's
South Bend .... Grand Leader

IOWA

Davenport .... Hill's
Des Moines .... Hill's

KENTUCKY

Louisville .... Jefferson Dry Goods Co.
Paducah .... Paducah Dry Goods Co.

MICHIGAN

Battle Creek .... Grand Leader
Flint .... The Fair
Jackson .... Stillman's
Lansing .... Lansing Dry Goods Co.
Port Huron .... Carroll House

NEW YORK

Troy .... Stanley's
Utica .... Boston Store

OHIO

Akron .... Federman's
Springfield .... Boston Store

PENNSYLVANIA

Muncy .... Carroll House
Reading .... Read's
Williamsport .... Carroll House
York .... Stillman's

TENNESSEE

Knoxville .... Knox Dry Goods Co.

VIRGINIA

Staunton .... Carroll House

WEST VIRGINIA

Huntington .... Huntington Dry Goods Co.

WISCONSIN

Edgerton .... Carroll House
Fond du Lac .. Fond du Lac Dry Goods Co.
Green Bay .... Hill's
Hartford .... Carroll House
Madison .... Hill's
Milwaukee .... Hill's
Racine .... Racine Dry Goods Co.
Sheboygan .... Hill's Department Store
West Bend .... Carroll House

This report is solely for statistical information for stockholders, and is not a representation, prospectus or circular in respect of any stock of any corporation, and is not transmitted in connection with any sale or offer to sell or buy any stock or security now or hereafter to be issued, or with any preliminary negotiation for such sale.